

Citizens Advice Scotland

Scottish Association of Citizens Advice Bureaux



1939-2009: 70 years
of Scottish CAB advice

A Better Deal for Consumers: Review of the Regulation of Credit and Store Cards

Consultation Response

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Citizens Advice Scotland and its 83 CAB offices form Scotland's largest independent advice network. CAB advice services are delivered through 222 service points throughout Scotland, from the islands to city centres.

The CAB service aims:

to ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities, or of the services available to them, or through an inability to express their need effectively

and equally

to exercise a responsible influence on the development of social policies and services, both locally and nationally.

The CAB service is independent and provides free, confidential and impartial advice to everybody regardless of race, sex, disability or sexuality.

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Introduction

1. Citizens Advice Scotland (CAS) is the umbrella organisation for Scotland's network of 83 Citizens Advice Bureau (CAB) offices. These bureaux deliver frontline advice services through more than 200 service points across the country, from the city centres of Glasgow and Edinburgh to the Highlands, Islands and rural Borders communities.
2. Citizens Advice Scotland welcomes the opportunity to respond to the UK Government's consultation on the review of regulation of Credit and Store cards. Bureaux across Scotland report a significant number of cases relating to credit card debt, repayment issues, and creditor behaviour.
3. In 2008/09, Scottish bureaux dealt with 360,836 debt issues, a 14% increase from the previous year. Consumer debt accounted for 76% of these debt issues, showing an increase of 13.5% from 2007/08; resulting in over 1000 consumer debt issues being dealt with by the Scottish citizens advice bureaux every working day of the year.
4. In June 2009, CAS published the 'Drowning in Debt'¹ report, a study of debt and debt related issues faced by Scottish CAB clients. The study found that 69% of CAB debt clients have at least one credit card debt. On average CAB debt clients owe 6 debts each, with under a third having more than 8 debts. The most common kind of debt was on a credit card and/or personal loans. The report also showed that just under a quarter had at least one store card debt.
5. In the face of the recession, many Scots, due to lack of employment or loss of income, find themselves struggling to pay off unsecured debts. Some have debts that stem from irresponsible lending practices where the debtor could ill afford to take out a considerable amount of credit in the first place as advised in our response² to the Irresponsible Lending consultation held by the Office of Fair Trading.
6. For many vulnerable Scottish CAB clients credit card debt is often a short term solution that spirals both into a long term and high cost credit issue.
7. This consultation response will draw on the experiences of Scottish CAB clients with credit card debt. The response will focus on the following:
 - Current Practices and Multiple Debt
 - Allocation of payments
 - Minimum Payments
 - Unsolicited credit limit increases
 - Re-pricing of existing debt
 - Affordable Credit

¹ Citizens Advice Scotland, *Drowning in Debt: Scottish CAB Clients and Debt*, June 2009

² Dryburgh, K (2008) "Irresponsible Lending: a consultation response to the OFT, available on the CAS website at www.cas.org.uk

Current Practices and Multiple Debt

8. Citizens advice bureaux across Scotland report clients who have multiple debts with numerous creditors and are finding it difficult to maintain payments due to changes in income and/or irresponsible lending by creditors.
9. This section will provide evidence on inappropriate levels of lending, multiple credit card debts held by low income clients, recessionary effects on credit card debt, and creditor behaviour.

Inappropriate Lending:

10. Many clients who initially were in a position to make payments towards their unsecured debts such as credit cards have over time experienced a loss in income. As a result, they now find themselves in a position where they are unable to maintain payments on their debts.

An East of Scotland CAB reports of a pensioner client who is a homeowner and owes £34,000 in unsecured debt, all of which was built up over a number of years. The client did not have problems making payments when she was working but now is in a position where not only all her pension payments are going towards her debt but she is paying some of her creditors (including credit card companies) by using further credit. Most recently she was granted another credit card with a £13,000 credit limit.

A North of Scotland CAB reports of a client who is retired and in part time employment. He has experienced a steady decline in income over the past few years and is finding it difficult to manage his credit card debt which currently stands at more than £15,000.

11. Some clients keep receiving unsolicited credit cards even when they already owe money on others and/or where they are unable to meet payments on existing credit cards. Others find it easy to qualify for cards knowing little about the terms and conditions of the credit agreement. This can put clients in a position where they spend money they do not have, with little means to make adequate repayments leading to money mismanagement and over indebtedness.

A South of Scotland CAB reports of a client who keeps receiving credit cards in the mail and is looking to stop these being issued in the first place. The client is receiving credit cards from the company she already has credit card debts with.

Client interview from Drowning in Debt³:

"I had thirty-odd credit cards. They kept sending me application forms so I just filled them in and sent them back. Some of them gave wee incentives as well."

³ Citizens Advice Scotland, *Drowning in Debt: Scottish CAB Clients and Debt*, June 2009, p38

Like with one of them, I got a mobile phone out of it... (Bank), it was £14000 or £15000 limits on them. I had five of them."

Vulnerable and Low Income clients:

12. Vulnerable clients often need to use credit when there are short falls in income. Clients in this group find it difficult to pay back large amounts of credit on a fixed income. Bureaux report that some vulnerable clients who have been given access to a considerable amount of credit on their credit cards are now at a loss on how to pay this back

A West of Scotland CAB reports of a client who has been suffering from mental ill health for a number of years and is in receipt of benefits has been paying his mortgage using a credit card. The client now owes his credit card company £10,000.

A West of Scotland CAB reports of a young male client who works part time and has accumulated a large amount of debt on multiple credit cards. The client used the credit cards to pay for living expenses which could not be met solely from his wages.

The Recession:

13. The recession brought with it a spate of redundancies, long periods of unemployment as well as reduced working hours for people in employment. This has resulted in significant loss of income, delayed wage payments, and other contractual issues. Clients who had been making payments on their credit and or store cards suddenly find that these debts are unsustainable for an indeterminate period of time.

An East of Scotland CAB reports of a client who has recently been made redundant and has used his redundancy money to pay off major debts. However he is still unable to pay off multiple credit card debt of £15,000.

A West of Scotland CAB reports of a client with a young family (including a baby) who has been made redundant and is struggling to make payments towards a £5500 credit card debt.

A West of Scotland CAB reports of a client who is a homeowner and now unable to meet his mortgage payments and multiple credit card debts, the latter amounting to £40,000.

14. Many owners of small businesses have found themselves in a position where they either pay off their debts by whatever means or close their doors for good. Some have resorted to making payments to their creditors using personal credit cards - adding to their list of creditors and to unsustainable levels of debt

A North of Scotland CAB reports of a client who used £130,000 of personal credit cards debt to finance a business that has since failed. Due to a lack of income the client is now struggling to make payments.

An East of Scotland CAB reports of a client who is a sole trader and owes £60,000 in credit card debts, £50,000 in loans (including to his family) and more than £20,000 to the HMRC. He is unable to make payments to his unsecured debt and has been served a notice to pay more than £6,000 to one of the creditors. The client expects his business to pick up in the near future.

A North of Scotland CAB reports of a client whose business went into liquidation a few months ago and now owes his credit card provider almost £12,500. The client has become ill and even though his wife is willing to pay his debt, she needs more time to be able to make the repayments.

Creditor behaviour:

15. Some creditors have been sympathetic and accommodating while others have been indifferent and forceful even when they know that clients are actively seeking ways of managing their financial situation. This is particularly distressful for clients who have used the services provided by a financial institution over a long period of time.

A West of Scotland CAB reports of a client who accumulated close to £10,000 on his credit card since his business failed. The CAB is trying to get the interest on this account frozen but the credit card provider is unwilling to do this until a default notice has been issued and the account passed onto their debt recovery department. The client is upset with this treatment particularly as he has done business with this financial institution for more than 20 years.

A North of Scotland CAB reports of a client who has multiple credit cards from the same financial institution and has been making minimum payments until recently when she lost her job. She has since been trying to manage her finances on a reduced income. Though the CAB has made a repayment offer to the creditor on behalf of the client, the client received a threatening phone call from a representative at the company advising her that she had to make a large payment immediately, demanding direct debit details for the client's bank account. The client felt pressured into paying the large amount.

Allocation of Payments

16. Scottish CAB debt clients have an income lower than the Scottish average. According to the 2009 Drowning in Debt report the average monthly income of a CAB debt client is £935 with an average debt to income ratio for CAB debt clients is £28 (i.e £28 of money owed for every £1 of income).
17. Most people approach a CAB for debt advice once they have reached a level of indebtedness that they are unable to manage or when they feel that they may not be able to maintain payments if their financial situation remains unchanged.
18. Citizens Advice Scotland in 2008 responded to the OFT consultation on irresponsible lending stating the services' concerns and recommendations based on the experience of vulnerable Scottish CAB clients⁴.
19. We welcome the recommendations made by OFT on calling into question the licensing of creditors who are not as transparent as they should be about the allocation of payments and who in this way fail to educate consumers on the costs of credit prior to a credit agreement being entered into.

An East of Scotland CAB reports of a client without employment who has £23,000 worth of credit card debt. The client has four children and has not had paid work for many years. He has reached the credit limit on seven credit cards, none of which he found difficult to obtain. His creditors do not appear to have made any checks before providing cards and setting credit limits.

A West of Scotland CAB reports of a young student, living with his partner and one dependent young child, who managed to run up nearly £10,000 of debt on six credit cards. Given the circumstances of the client and his partner, the bureau questioned how the client had been able to open six credit card accounts. The client reported that a finance company was willing to offer a consolidation loan despite the client having no disposable income to service the loan.

20. We also welcome the consumer credit directive⁵ and its requirement that lenders should provide adequate explanations on the cost of credit for consumers.
21. We do however feel that the OFT recommendations on Irresponsible Lending and the consumer credit directive are not enough to change patterns of indebtedness and that more needs to be done to change lender behaviour and increase consumer education.

⁴ Dryburgh, K (2008) "Irresponsible Lending: a consultation response to the OFT, available on the CAS website at www.cas.org.uk

⁵ Department of Business, Innovation and Skills, UK Government, Consultation Document "A Better Deal for Consumers: Review of the Regulation of Credit and Store Cards", October 2009 (As stated in this document)

Client Interview from Drowning in Debt⁶:

“... 17 or 18...I got a credit card...that had a £200 limit but that has gone up to £800 with charges and stuff and it has been passed to different debt companies...”

22. We recommend that changes be made on how payments are allocated between the different debts accumulated on a credit card. It is important that clients be able to pay off their debts within a reasonable period of time. Clients who get into a cycle of high cost credit are often unable to get out of debt. The longer the more expensive debt is allowed to run the greater the associated costs. We therefore recommend an allocation of payments that allows for the more expensive debt to be paid off first which would result in more debts being repaid and at a faster rate.
23. Transparency and education on how credit card payments are allocated and the subsequent cost to consumers is important. Even if there is a chance that such information might not change consumer behaviour in relation to the use of credit, it will increase a client's ability to manage finances once credit has been taken out. Debt management should be an aspect of the mainstream credit card system.

⁶ Citizens Advice Scotland, *Drowning in Debt: Scottish CAB Clients and Debt*, June 2009, p47

Minimum Payments

24. A number of Scottish CAB clients make minimum payments on their credit and store cards. This means that not only does the debt fail to be repaid within a reasonable period of time, but it also increases the costs of the credit substantially, as interest is applied. Some clients do not have the means to meet even these minimum payments – an issue of irresponsible lending practices and the higher cost of credit for vulnerable clients.

A West of Scotland CAB reports of a client who is currently unemployed and unable to make monthly minimum payments on 3 credit card debts totalling £2000

25. The recession has had a detrimental effect on people's ability to make minimum payments, particularly where individuals with steady incomes have suddenly been made redundant.
26. We welcome the consumer credit directive and the OFT irresponsible lending guidance proposals which will ensure that consumers are aware of the cost of the credit they are taking out and provide an explanation as to how minimum payments affect different levels of debt. We do not believe that the implementation of the consumer credit directive and the OFT guidance on irresponsible lending will provide sufficient consumer protection. While increasing transparency regarding the cost of credit is desirable, it will not necessarily encourage higher payments, particularly where the debtor's income has decreased due to the recession.

Payment Protection Insurance:

27. CAB debt clients who rely on payment protection insurance to help them out in times of such financial difficulty have found that assistance through this type of insurance is not always easily accessible and that payment protection insurance terms and conditions have been unclear on which financial circumstances are covered and which are not.
28. According to research findings in the Drowning in Debt report, one third of Scottish CAB clients had payment protection insurance, and only a third of these had made claims. Only 16% of these claims had been successful. Clients with unsuccessful claims are left struggling to meet monthly payments and manage an unsustainable level of debt.

A West of Scotland CAB reports of a client who had payment protection on his credit card and requested assistance from the insurance when he lost his job and was unable to meet minimum monthly payments on his account. The client's claim was subsequently denied on the basis that he had recently used his credit card abroad and so was not covered by the insurance. The client had been making regular insurance payments during this time.

A West of Scotland CAB reports of a client who become redundant when the company she worked for suddenly shut down. The client became depressed and ill because of the situation and qualified for Employment Support Allowance (ESA). Her payment protection provider refused her claim to cover her credit card debts because she wasn't considered unemployed if on ESA. This has added to the clients health issues.

29. CAS has previously responded to the Competition Commission's call for evidence⁷ on this issue and produced a briefing sheet highlighting our concerns and recommending increased transparency, clarity and consumer protection⁸.

Recommended Minimum Payments:

30. The Scottish CAB service would welcome a voluntary scheme where clients would opt in to make 'recommended minimum' payments on their credit card debts, encouraging faster repayment and lower levels of indebtedness.
31. We would discourage any scheme where Direct Debit mandates for the repayment of credit card debt is set at the higher 'recommended' minimum payment as this would put vulnerable and considerably indebted clients in a situation where they are unable to meet re payment obligations and may even incur bank charges as a result.
32. We would recommend that the government consider revising the current minimum payment threshold set at 2-3% to a higher amount only if such changes are applied to new credit card accounts. With existing credit card accounts there is a risk that such a change would have a significant impact on vulnerable clients and current levels of indebtedness, particularly where there is a lack of income.
33. We are concerned that the recommended 36 month period considered 'reasonable' to pay off credit card debts would be unsustainable for existing credit card users, and that any such 'reasonable' period of debt repayment should only be applied to future credit agreements. Any time limit set on debt repayment should correspond to the level of debt incurred and a client's financial situation.
34. Future customers should be clearly advised of all payment expectations and costs associated with using a credit card and its various services (including the more expensive debt incurred from cash advances).
35. Many low income clients take out unsustainable amounts of credit because they are unable to gain access to affordable credit. Consideration should be given to introducing a basic credit card that serves the interests of low income or vulnerable clients.

⁷ Isaacs, Lindsay, "Payment Protection Insurance, A Response from Citizens Advice Scotland", March 2007

⁸ Citizens Advice Scotland, "Payment Protection Insurance", briefing paper published April 2007

Unsolicited credit limit increases

36. CAB debt clients with credit card debt have seen their credit limit increased by their credit card provider with what at times appears to be little consideration of a client's ability to pay.

Client interviewed for Drowning in Debt report:

"We spent it at the time and didn't think 'the interest is really high' or anything else. You spend it when you think you need it and it accumulates really quickly and you don't realise what you have done. So in that sense that was money mismanagement because we would be paying that forever... You don't think of it that way and they increase the limit too easily for people. Far too easily. They'll bump it up every so often and you just think 'oh I've got a wee bit more to spend'. It's too easy because you're left with too much to pay back."

37. We welcome the creditworthiness checks that will be required before a creditor offers or increases the credit limit on a card. We are however not satisfied with an 'opt out' requirement as suggested under the OFT irresponsible lending guidance. More action is required to prevent irresponsible lending by credit card companies and to encourage money management by the consumer.
38. We welcome the best practice standards recently proposed by the credit card companies though these do not go far enough to increase consumer protection. We believe that credit card limits should not be increased on an unsolicited basis unless specified by the client at the outset of an agreement and with a requirement for consent on each individual increase.
39. Credit card companies should conduct credit checks on creditworthiness of existing clients on an ongoing basis but any credit limit increases should only be provided after consent has been received from a card holder or where the card holder has specifically requested such an increase.

Credit Limit Decreases:

40. Clients who have had their credit limits decreased need to be protected as well. A sudden and significant decrease in credit has left many consumers financially worse off, particularly where clients are over drawn on their account and subject to higher penalties as a result of such a decrease.

A West of Scotland CAB reports of a client who has a store card with a limit of £2200. The client who has been making regular payments on the card currently has an outstanding balance of £600+. The client's card was recently denied and upon contacting the store card department the client was advised that a credit check had been conducted on old clients and that she would have to pay the existing balance and then re apply for a store card.

A South of Scotland CAB reports of an elderly client who has two credit cards dating back 50 years. The client has been making regular payments until recently when she missed a payment on one of the cards because of an oversight. The client's credit limit has now substantially been decreased on both cards. The limit on one card was cut from £5000 to £450 and on the other card from £3,500 to £260. The client asked for credit statements from a credit agency and found nothing wrong with her creditworthiness. The bank refuses to reinstate the limits.

Re-pricing of existing debt

41. Scottish CAB clients are more likely to be using sub-prime credit cards which already carry high interest rates. Vulnerable clients, as mentioned in the consultation document, are most likely to be taking out cash advances and credit associated with high interest rates. A re-evaluation of interest rates is more likely to increase client indebtedness and inability to make payments.
42. We welcome the Statement of Principles implemented on January 2009 but feel that these fall short of protecting vulnerable clients, and clients who have been affected by the recession.

A West of Scotland CAB reports of a client who owes £9000 on his credit card and has met all his minimum monthly payments. The client's credit card company have now doubled his interest rate and are threatening to sell the debt. The client is worried that it will take longer to pay off his debt than previously anticipated.

43. We recommend a consultation on defining when and for what reasons lenders can justify re-pricing (increasing the interest on) an existing debt. There needs to be a process by which consumers can file complaints against the re-pricing of such debt.

Affordable Credit

44. There currently exists a high demand for affordable credit .Vulnerable Scottish CAB clients more often than not are likely to have to rely on high cost credit including sub-prime credit cards as they are unable to access low interest mainstream credit⁹ .
45. Vulnerable Scottish CAB clients would benefit from a 'Basic' Credit Card, similar to a 'Basic Bank Account'. A client could access basic credit services and be entitled to use a low credit limit. A simple and clear repayment schedule would be provided and a monthly payment set such that the credit is paid off in a specified period of time (which can be changed in exceptional circumstances)

⁹ Citizens Advice Scotland, 'Drowning in Debt' published 2009

General Recommendations

46. These are in addition to what has been recommended in the response above.
47. The Scottish CAB service welcomes increased transparency and consumer education through the implementation of the Consumer Credit Directive.
48. We also welcome the OFT irresponsible lending Guidance on curbing irresponsible lending and creditor behaviour with respect to the operation of credit and store card agreements.
49. We are concerned that guidance and the consumer credit directive alone will not have the desired effect of curbing irresponsible lending, increasing consumer protection and encouraging money management.
50. We are concerned about the lack of affordable credit available through the mainstream credit market and recommend consideration is given to the introduction of an affordable credit product aimed at vulnerable consumers. A 'basic' credit card product offering simple, clear, transparent and limited services to people who would otherwise rely on sub-prime credit cards.
51. Even though credit card lending has decreased during this recession, CAB evidence shows that the effects of unaffordable credit card limits, high interest rates, change in financial circumstances and unclear policies and practices have been felt by a number of Scots. It is important that changes be made as quickly as possible to limit indebtedness, increase consumer confidence and increase consumer rights.